

Common bookkeeping mistakes small businesses make

Overview

In the world of accounting, errors and mistakes are common. Even the smartest accountants can have the biggest oversights. But the problem is, sometimes these oversights can be costly to the company! In the world of accounting, many kinds of problems can arise, whether it's on the side of tax preparation, financial reporting, or record-keeping. Today, we're focusing on the recording side, i.e, bookkeeping.



Introduction

[Bookkeeping](#) is the recording of day-to-day transactions of your company in an organized manner. Whether you do your bookkeeping or outsource to professionals, mistakes can happen anytime. From not properly tracking your transactions to poor management of payables and receivables, let's discuss some of the common bookkeeping mistakes small business makes and how to avoid them.

1. **Not categorizing expenses properly:** When your expenses are not properly categorized, you can easily get into tax compliance issues. For example, you can accidentally record capital expenditures like equipment purchases as regular operating

costs. This can lead to inaccurate tax filings, which can lead to potential penalties or even audits from tax authorities.

2. **Not reconciling accounts properly:** Financial records and bank statements often mismatch due to not reconciling properly. Many small businesses face these problems as they don't do it on a monthly basis. This can lead to inaccurate financial reports, duplicate or missing transactions, tax filing errors, and cash flow management issues.
3. **Not maintaining proper documentation:** Many small businesses don't have proper documentation of their receipts, invoices, and payment records. This can create problems during auditing and a higher risk of penalties and fines.
4. **No proper backups:** A simple hard drive failure or a cyberattack can easily compromise your financial data. Many small businesses do not invest in proper backup options, which can make recovering your data very hard and costly.
5. **Not hiring professionals:** If you're managing your accounts on your own, make sure you have the proper knowledge to do so.

In an attempt to cut costs, you might end up losing more money due to a lack of expertise, which can lead to serious errors, missed tax deductions, or even penalties for non-compliance.

Conclusion

Your entire financial picture and your ability to file taxes properly depend upon your ability to record every transaction accurately and save those records properly. Many early-stage businesses use spreadsheets, but that often leads to errors and lost data. Switching to proper [bookkeeping software](#) lets you automate entries, keep everything organized, and secure cloud-based solution so that you can backup your data properly.

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